

CITY OF OSAGE

INDEPENDENT AUDITORS' REPORTS  
PRIMARY GOVERNMENT FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006



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City of Osage

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Steven Cooper	Mayor	Jan 2008
Kevin Palsic	Council Member	Jan 2006
Jim Werner	Council Member	Jan 2006
Rick Bodensteiner	Council Member	Jan 2006
Allan Smalley	Council Member	Jan 2008
Joel Voaklander	Council Member	Jan 2008
Brian Adams	Council Member	Jan 2008
Cathy Penney	City Clerk	Jan 2006
Bev Miller	City Treasurer	Jan 2006
Richard Gross	City Attorney	Jan 2006
Jerry Dunlay	Director of Public Works	Jan 2006
John LaCoste	Park Commissioner	Jan 2006
Don Fox	Park Commissioner	Jan 2008
John Michels	Park Commissioner	Jan 2010
Kevin Kolbet	Library Trustee	Jul 2006
Herb Wright	Library Trustee	Jul 2006
Johanna Anderson	Library Trustee	Jul 2007
Della Cordle	Library Trustee	Jul 2008
Mary Fox	Library Trustee	Jul 2008
Brian Jones	Library Trustee	Jul 2011
Mary Ann Carmody	Library Trustee	Jul 2011

(After January 2006)

Steven Cooper	Mayor	Jan 2008
Allan Smalley	Council Member	Jan 2008
Joel Voaklander	Council Member	Jan 2008
Brian Adams	Council Member	Jan 2008
Kevin Palsic	Council Member	Jan 2010
Jim Werner	Council Member	Jan 2010
Don Breon	Council Member	Jan 2010
Cathy Penney	City Clerk	Jan 2008
Bev Miller	City Treasurer	Jan 2008
Richard Gross	City Attorney	Jan 2008
Jerry Dunlay	Director of Public Works	Jan 2008
Don Fox	Park Commissioner	Jan 2008
John Michels	Park Commissioner	Jan 2010
John LaCoste	Park Commissioner	Jan 2012
Kevin Kolbet	Library Trustee	Jul 2006
Herb Wright	Library Trustee	Jul 2006
Johanna Anderson	Library Trustee	Jul 2007
Della Cordle	Library Trustee	Jul 2008
Mary Fox	Library Trustee	Jul 2008
Brian Jones	Library Trustee	Jul 2011
Mary Ann Carmody	Library Trustee	Jul 2011

Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's primary government financial statements listed in the table of contents. These primary government financial statements are the responsibility of the City of Osage's management. Our responsibility is to express opinions on these primary government financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the primary government financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the primary government financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall primary government financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these primary government financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Legally separate entities are referred to as component units. In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

However, the primary government financial statements, because they do not include the financial data of component units of the City of Osage, do not purport to, and do not, present fairly the results of the cash transactions of the funds of the City of Osage as of and for the year ended June 30, 2006, and its indebtedness at June 30, 2006, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 13, 2006 on our consideration of the City of Osage's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 24 through 26 are not required parts of the primary government financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osage's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the two years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the primary government financial statements. Such information has been subjected to the auditing procedures applied in our audit of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

Lines Murphy & Company, P. L. C.  
Certified Public Accountants  
Osage, Iowa  
November 13, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Osage provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's primary government financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 8.2%, or approximately \$219,000, from fiscal 2005 to fiscal 2006. Capital project revenues decreased approximately \$301,000 due to a Department of Transportation grant of almost 202,000 received in 2005.
- Disbursements increased 21.4%, or approximately \$460,000, in fiscal 2006 from fiscal 2005. This increase was due to the 2006 Street Project which had approximately \$499,000 in expenditures.
- The City's total cash basis net assets decreased 4.8%, or approximately \$183,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$110,000 and the assets of the business type activities decreased by approximately \$73,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of primary government financial statements and other information as follows:

Management's Discussion and Analysis introduces the primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to primary government financial statements provide additional information essential to a full understanding of the data provided in the primary government financial statements.

Required Supplementary Information further explains and supports the primary government financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of



accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and solid waste collections. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund, 5) the Permanent Funds, and 6) the 2006 Street Project. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required primary government financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

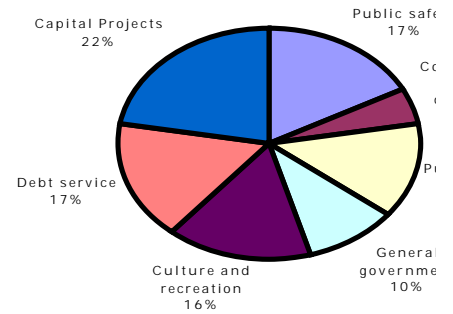
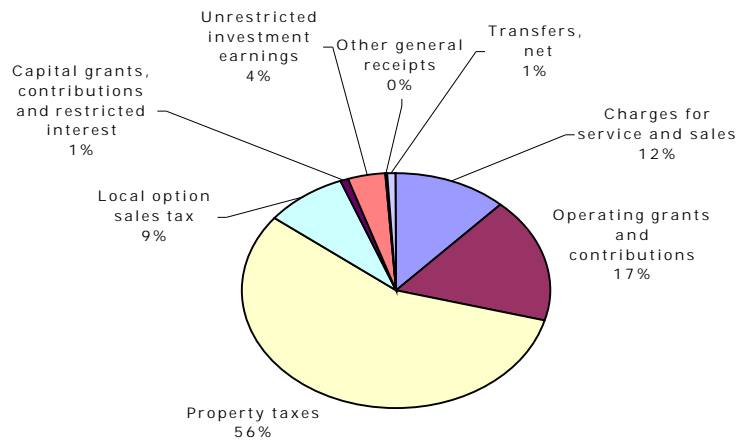
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, solid waste, and the utility project funds, considered to be major funds of the City.

The required primary government financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$2.596 million to \$2.486 million. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 302	\$ 457
Operating grants, contributions and restricted interest	425	538
Capital grants, contributions and restricted interest	24	-
General receipts:		
Property tax	1,410	1,353
Local option sales tax	218	195
Grants and contributions not restricted to specific purposes	-	43
Unrestricted investment earnings	94	51
Other general receipts	9	65
Transfers, net	19	(7)
Total receipts and transfers	<u>\$ 2,501</u>	<u>\$ 2,695</u>
Disbursements:		
Public safety	\$ 451	\$ 415
Public works	352	357
Culture and recreation	413	413
Community and economic development	126	101
General government	257	209
Debt service	431	463
Capital projects	581	193
Total disbursements	<u>\$ 2,611</u>	<u>\$ 2,151</u>
Increase (decrease) in cash basis net assets	\$ (110)	\$ 544
Cash basis net assets beginning of year	<u>2,596</u>	<u>2,052</u>
Cash basis net assets end of year	<u><u>\$ 2,486</u></u>	<u><u>\$ 2,596</u></u>



The City's total receipts for governmental activities decreased by 8.2%, or \$219,000. The significant decrease in receipts was primarily the result of a Department of Transportation grant for the airport project received in 2005.

The cost of all governmental activities this year was \$2.611 million compared to \$2.151 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$2.043 million because some of the cost was paid by those who directly benefited from the programs (\$302,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$450,000).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)			
	Year ended June 30,		
	2006	2005	
<b>Receipts:</b>			
Program receipts:			
Charges for service:			
Water	\$ 352	\$ 339	
Sewer	518	512	
Solid waste	162	146	
Capital grants, contributions and restricted interest	14	8	
General receipts:			
Unrestricted interest on investments	30	25	
Total receipts	<u>\$ 1,076</u>	<u>\$ 1,030</u>	
<b>Disbursements and transfers:</b>			
Water	\$ 261	\$ 259	
Sewer	431	523	
Solid waste	165	130	
Utility project	273	257	
Transfers, net	19	(7)	
Total disbursements and transfers	<u>\$ 1,149</u>	<u>\$ 1,162</u>	
Decrease in cash basis net assets	\$ (73)	\$ (132)	
Cash basis net assets beginning of year	<u>1,355</u>	<u>1,487</u>	
Cash basis net assets end of year	<u>\$ 1,282</u>	<u>\$ 1,355</u>	

Total business type activities receipts for the fiscal year were \$1.076 million compared to \$1.030 million last year. This increase was due primarily to an increase in water and garbage rates. The cash balance decreased by approximately \$73,000 from the prior year because of utility projects. Total disbursements and transfers for the fiscal year decreased by 1% to a total of \$1.150 million because most of the sewer project was completed during the previous fiscal year.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Osage completed the year, its governmental funds reported a combined fund balance of \$2,486,342, a decrease of \$109,636 below last year's total of \$2,595,978. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The 2006 Street Project Fund was established in this fiscal year to account for a major street project within the City. At the end of the fiscal year, the cash balance was \$(258,909). The negative balance was the result of expenditures before assessments were collected.
- The Tax Increment Financing Fund was established in a previous fiscal year to account for a major urban renewal projects within the City's business and industrial districts. At the end of the fiscal year, the cash balance was \$606,843, an increase of \$160,946 from the previous year. The increase is a result of less capital outlay and transfers during fiscal year 2006.

#### INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$57,736 to \$605,942, due primarily to net transfers out to the Utility project.
- The Sewer Fund cash balance increased by \$63,269 to \$605,274, due primarily to less costs associated with the Utility project.
- The Solid Waste Fund cash balance decreased by \$19,853 to \$126,536 due primarily to the cost of City Wide Cleanup and transfer to the General Fund for leaf pickup.

#### BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 15, 2006 and resulted in an increase in operating disbursements of \$361,380 related primarily to new capital projects within the city.

#### DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$2,610,000 in bonds and other long-term debt, compared to approximately \$3,145,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2006	2005
General obligation bonds	\$ 580	\$ 670
General obligation notes	480	765
Revenue bonds	1,550	1,710
Total	\$ 2,610	\$ 3,145

Debt decreased as a result of scheduled payments made during the fiscal year.

The City continues to carry a general obligation bond rating of A33 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within

the City's corporate limits. The City's outstanding general obligation debt of \$1,060,000 is significantly below its constitutional debt limit of \$6 million.

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Osage's elected and appointed officials consider many factors when setting the fiscal year 2007 budget, tax rates and fees that will be charged for various City activities. Estimates are made each February to project expenditures and revenues for the next 16 months.

Property tax asking for fiscal year 2007 is \$39,502 more than fiscal year 2006, which is a 4% increase. The additional tax dollars will be used for debt service, employee benefits and general fund activities. The Tax Increment finance district continues to show an increase in property valuations and produces revenues for a variety of improvements and economic development opportunities. Water and Sewer rates are evaluated each summer. Rates were adjusted 2.5% in September 2006.

Projected revenues and expenditures are more for fiscal year 2007 than fiscal year 2006, due in large part to scheduling of capital projects. The 2006 Street Improvement Project (total budgeted cost \$866,000) started late in FY 2006 and was completed in September. The City will use Local Option Tax revenue to cover approximately 50% of the Street Project cost and the balance of the project cost will be assessed to the benefited property owners.

The City of Osage, Osage Community School District, Osage Municipal Utilities, Osage Education foundation, Mitchell county Historical Society and Mitchell County Agricultural Society began exploring opportunities for sharing facilities during FY 2006. The discussion led to financial commitments totaling \$5 million from the City, School and OMU toward the construction of facilities to accommodate, a wellness center, museum, performance auditorium, convention & exhibition space, weight room and bus garage. The document creating the Cedar River recreation and Fine Arts Complex Board was signed by all parties on September 11, 2006. A Capital Campaign is underway to raise additional funds needed to bring this unique plan to reality.

#### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cathy Penney, City Clerk, 806 Main Street, City of Osage, Iowa.

City of Osage

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

		<u>Disbursements</u>
Functions / Programs:		
Governmental activities:		
Public safety	\$	451,189
Public works		351,946
Culture and recreation		413,221
Community and economic development		125,515
General government		257,076
Debt service		431,218
Capital projects		580,557
Total governmental activities	\$	<u>2,610,722</u>
Business type activities:		
Water	\$	260,827
Sewer		431,606
Solid waste		164,875
Utility Project		272,999
Total business type activities	\$	<u>1,130,307</u>
Total	\$	<u><u>3,741,029</u></u>
General Receipts:		
Property tax levied for:		
General purposes		
Tax increment financing		
Debt service		
Local option sales tax		
Unrestricted interest on investments		
Miscellaneous		
Transfers		
Total general receipts and transfers		
Change in cash basis net assets		
Cash basis net assets beginning of year		
Cash basis net assets end of year		
Cash Basis Net Assets		
Restricted:		
Streets		
Urban renewal		
Debt service		
Other purposes		
Unrestricted		
Total cash basis net assets		

See notes to financial statements.

Exhibit A

Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
\$ 15,773	\$ 8,190	\$ -	\$ (427,226)	\$ -	\$ (427,226)
50,854	289,858	-	(11,234)	-	(11,234)
46,634	64,904	-	(301,683)	-	(301,683)
950	62,475	24,307	(37,783)	-	(37,783)
115,527	-	-	(141,549)	-	(141,549)
72,156	-	-	(359,062)	-	(359,062)
-	-	-	(580,557)	-	(580,557)
<u>\$ 301,894</u>	<u>\$ 425,427</u>	<u>\$ 24,307</u>	<u>\$ (1,859,094)</u>	<u>\$ -</u>	<u>\$ (1,859,094)</u>
\$ 352,072	\$ -	\$ -	\$ -	\$ 91,245	\$ 91,245
517,645	14,182	-	-	100,221	100,221
161,858	-	-	-	(3,017)	(3,017)
-	-	-	-	(272,999)	(272,999)
<u>\$ 1,031,575</u>	<u>\$ 14,182</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (84,550)</u>	<u>\$ (84,550)</u>
<u>\$ 1,333,469</u>	<u>\$ 439,609</u>	<u>\$ 24,307</u>	<u>\$ (1,859,094)</u>	<u>\$ (84,550)</u>	<u>\$ (1,943,644)</u>
			\$ 788,678	\$ -	\$ 788,678
			433,742	-	433,742
			187,101	-	187,101
			218,004	-	218,004
			93,625	30,354	123,979
			9,308	-	9,308
			19,000	(19,000)	-
			<u>\$ 1,749,458</u>	<u>\$ 11,354</u>	<u>\$ 1,760,812</u>
			<u>\$ (109,636)</u>	<u>\$ (73,196)</u>	<u>\$ (182,832)</u>
			2,595,978	1,355,334	3,951,312
			<u>\$ 2,486,342</u>	<u>\$ 1,282,138</u>	<u>\$ 3,768,480</u>
			\$ 357,771	\$ -	\$ 357,771
			606,843	-	606,843
			117,434	505,116	622,550
			8,690	-	8,690
			1,395,604	777,022	2,172,626
			<u>\$ 2,486,342</u>	<u>\$ 1,282,138</u>	<u>\$ 3,768,480</u>

City of Osage  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2006

	General	Special Road Use Tax
Receipts:		
Property tax	\$ 562,032	\$ -
Tax increment financing collections	-	-
Other city tax	26,813	-
Licenses and permits	6,245	-
Use of money and property	50,030	-
Intergovernmental	117,844	289,858
Charges for service	51,417	-
Special assessments	-	-
Miscellaneous	66,070	-
Total receipts	<u>\$ 880,451</u>	<u>\$ 289,858</u>
Disbursements:		
Operating:		
Public safety	\$ 447,199	\$ -
Public works	107,108	244,838
Culture and recreation	413,221	-
Community and economic development	72,625	-
General government	257,076	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>\$ 1,297,229</u>	<u>\$ 244,838</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (416,778)</u>	<u>\$ 45,020</u>
Other financing sources (uses):		
Operating transfers in	\$ 384,985	\$ -
Operating transfers out	(10,384)	-
Total other financing sources (uses)	<u>\$ 374,601</u>	<u>\$ -</u>
Net change in cash balances	<u>\$ (42,177)</u>	<u>\$ 45,020</u>
Cash balances beginning of year	759,737	312,751
Cash balances end of year	<u>\$ 717,560</u>	<u>\$ 357,771</u>
Cash Basis Fund Balances		
Restricted	\$ -	\$ -
Reserved:		
Debt service	-	-
Unreserved:		
General fund	717,560	-
Special revenue funds	-	357,771
Capital projects fund	-	-
Permanent fund	-	-
Total cash basis fund balances	<u>\$ 717,560</u>	<u>\$ 357,771</u>

See notes to financial statements.



Exhibit B

Revenue			Other	
Tax		2006	Nonmajor	
Increment	Debt	Street	Governmental	
Financing	Service	Project	Funds	Total
\$ -	\$ 186,739	\$ -	\$ 199,363	\$ 948,134
433,742	-	-	-	433,742
-	362	-	218,474	245,649
-	-	-	-	6,245
14,131	8,509	-	38,774	111,444
-	-	-	24,307	432,009
-	-	-	10,682	62,099
-	17,832	-	42,272	60,104
29,150	54,325	-	33,115	182,660
<u>\$ 477,023</u>	<u>\$ 267,767</u>	<u>\$ -</u>	<u>\$ 566,987</u>	<u>\$ 2,482,086</u>
\$ -	\$ -	\$ -	\$ 3,990	\$ 451,189
-	-	-	-	351,946
-	-	-	-	413,221
26,390	-	-	26,500	125,515
-	-	-	-	257,076
-	431,218	-	-	431,218
-	-	499,409	81,148	580,557
<u>\$ 26,390</u>	<u>\$ 431,218</u>	<u>\$ 499,409</u>	<u>\$ 111,638</u>	<u>\$ 2,610,722</u>
<u>\$ 450,633</u>	<u>\$ (163,451)</u>	<u>\$ (499,409)</u>	<u>\$ 455,349</u>	<u>\$ (128,636)</u>
\$ -	\$ 139,722	\$ 240,500	\$ 333,183	\$ 1,098,390
(289,687)	-	-	(779,319)	(1,079,390)
<u>\$ (289,687)</u>	<u>\$ 139,722</u>	<u>\$ 240,500</u>	<u>\$ (446,136)</u>	<u>\$ 19,000</u>
\$ 160,946	\$ (23,729)	\$ (258,909)	\$ 9,213	\$ (109,636)
445,897	141,163	-	936,430	2,595,978
<u>\$ 606,843</u>	<u>\$ 117,434</u>	<u>\$ (258,909)</u>	<u>\$ 945,643</u>	<u>\$ 2,486,342</u>
\$ -	\$ -	\$ -	\$ 8,690	\$ 8,690
-	117,434	-	-	117,434
-	-	-	-	717,560

## City of Osage

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise Funds				
	Water	Sewer	Solid Waste	Utility Project	Total
Operating receipts:					
Licenses and permits	\$ -	\$ 18,225	\$ -	\$ -	\$ 18,225
Charges for service	352,072	499,420	161,858	-	1,013,350
Miscellaneous	-	479	-	-	479
Total operating receipts	<u>\$ 352,072</u>	<u>\$ 518,124</u>	<u>\$ 161,858</u>	<u>\$ -</u>	<u>\$ 1,032,054</u>
Operating disbursements:					
Business type activities	<u>\$ 24,502</u>	<u>\$ 431,606</u>	<u>\$ 164,875</u>	<u>\$ 272,999</u>	<u>\$ 893,982</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 327,570</u>	<u>\$ 86,518</u>	<u>\$ (3,017)</u>	<u>\$ (272,999)</u>	<u>\$ 138,072</u>
Non-operating receipts:					
Interest on investments	\$ 21,019	\$ 18,874	\$ 4,164	\$ -	\$ 44,057
Debt Service	(236,325)	-	-	-	(236,325)
Total non-operating receipts	<u>\$ (215,306)</u>	<u>\$ 18,874</u>	<u>\$ 4,164</u>	<u>\$ -</u>	<u>\$ (192,268)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 112,264</u>	<u>\$ 105,392</u>	<u>\$ 1,147</u>	<u>\$ (272,999)</u>	<u>\$ (54,196)</u>
Other financing sources (uses):					
Operating transfers in	\$ -	\$ 2,000	\$ -	\$ 214,123	\$ 216,123
Operating transfers out	(170,000)	(44,123)	(21,000)	-	(235,123)
Total other financings sources (uses)	<u>\$ (170,000)</u>	<u>\$ (42,123)</u>	<u>\$ (21,000)</u>	<u>\$ 214,123</u>	<u>\$ (19,000)</u>
Net change in cash balances	<u>\$ (57,736)</u>	<u>\$ 63,269</u>	<u>\$ (19,853)</u>	<u>\$ (58,876)</u>	<u>\$ (73,196)</u>
Cash balances beginning of year	<u>663,678</u>	<u>542,005</u>	<u>146,389</u>	<u>3,262</u>	<u>1,355,334</u>
Cash balances end of year	<u><u>\$ 605,942</u></u>	<u><u>\$ 605,274</u></u>	<u><u>\$ 126,536</u></u>	<u><u>\$ (55,614)</u></u>	<u><u>\$ 1,282,138</u></u>
Cash Basis Fund Balances					
Reserved for debt service	\$ 127,198	\$ 377,918	\$ -	\$ -	\$ 505,116
Unreserved	<u>478,744</u>	<u>227,356</u>	<u>126,536</u>	<u>(55,614)</u>	<u>777,022</u>
Total cash basis fund balances	<u><u>\$ 605,942</u></u>	<u><u>\$ 605,274</u></u>	<u><u>\$ 126,536</u></u>	<u><u>\$ (55,614)</u></u>	<u><u>\$ 1,282,138</u></u>

See notes to financial statements.

City of Osage

Notes to Primary government Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Osage has included all funds, organizations, agencies, boards, commissions and authorities, except for its component unit, the Osage Municipal Utilities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's primary government financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These primary government financial statements present the City of Osage (the primary government) and exclude the component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its respective administrative office.

Component Unit

The Osage Municipal Utilities is a component unit of the City of Osage and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. A five-member board, appointed by the Mayor, governs the Utilities. The Utilities and its operating budget are subject to the approval of the City Council.

### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no known ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mitchell County Assessor's Conference Board, City Assessor's Conference Board, Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw County Solid Waste Management Agency, and Mitchell County Joint E911 Service Board.

### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate primary government financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The 2006 Street Project Fund is used to account for the current street project.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for garbage collection services to the citizens of Osage.

The Utility Project Fund is used to account for a sewer and water capital project on the east side of the City.

C. Measurement Focus and Basis of Accounting

The City of Osage maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City of Osage funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

#### (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. treasury securities	<u>\$ 10,288</u>	<u>\$12,583</u>	<u>August 2019</u>

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

#### (3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Revenue Bond 1999 Waste Water Treatment		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 95,000	\$ 23,462	\$ 290,000	\$ 20,298	\$ 165,000	\$ 69,525	\$ 550,000	\$ 113,285
2008	95,000	19,977	80,000	11,057	170,000	62,513	345,000	93,547
2009	100,000	16,300	80,000	6,037	180,000	55,202	360,000	77,539
2010	70,000	12,270	20,000	988	190,000	47,373	280,000	60,631
2011	80,000	9,435	10,000	197	195,000	39,012	285,000	48,644
2012-2015	140,000	8,495	-	-	650,000	61,855	790,000	70,350
Total	<u>\$ 580,000</u>	<u>\$ 89,939</u>	<u>\$ 480,000</u>	<u>\$ 38,577</u>	<u>\$ 1,550,000</u>	<u>\$ 335,480</u>	<u>\$ 2,610,000</u>	<u>\$ 463,996</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the amount required in the sewer revenue bond sinking account to a revenue reserve account and \$1,000 to the improvement fund account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$50,130, \$49,073 and \$47,683, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$28,362
Compensatory	<u>4,960</u>
Total	<u>\$33,322</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. However, sick leave time is canceled if an employee leaves his or her employment with the City.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency Levy	\$ 16,239
	Local Option Tax	83,107
	Tax Increment Financing	60,649
	Employee Benefits	183,594
	Parks and Recreation	20,393
	Enterprise:	
	Solid Waste	21,000
	Permanent:	
	Hallingby Trust	3
		<u>\$ 384,985</u>
Special Revenue:	Special Revenue:	
Commercial Loan Project	Tax Increment Financing	21,963
	Capital Projects:	
	Airport and Street Related	30,000
		<u>\$ 51,963</u>
Capital Improvement Revolving	General	<u>\$ 4,000</u>
Library Building and Equipment	General	<u>\$ 4,184</u>
Jaws of Life	General	<u>\$ 200</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 43,601
	Tax Increment Financing	96,121
		<u>\$ 139,722</u>
2006 Street Project	Capital Projects:	
	Airport and Street Related	<u>\$ 240,500</u>
Capital Projects:	Special Revenue:	
Airport and Street Related	Local Option Sales Tax	\$ 161,882
	Tax Increment Financing	110,954
		<u>\$ 272,836</u>
Utility Project	Enterprise:	
	Water	\$ 170,000
	Sewer	44,123
		<u>\$ 214,123</u>
Enterprise:		
Sewer	General	<u>\$ 2,000</u>
Total		<u>\$ 1,314,513</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.



(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$10,779 during the year ended June 30, 2006.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Fund Balances

The 2006 Street Project Fund had a deficit balance of \$258,909 at June 30, 2006. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of assessments from property owners and remaining City funds. The Enterprise Fund Utility Project account had a deficit balance of \$ 55,614 at June 30, 2006. The deficit balance was due to project costs incurred prior to the availability of funds. The deficit balance will be eliminated upon transfer of funds from water and sewer.

(10) Component Units

Osage Municipal Utilities is a component unit of the City of Osage. It is not included in this report. Following are the transactions between the City and the Utilities:

City paid to Utilities:

Utilities	\$ 86,298
Billed services (bookkeeping)	18,000
Phone and internet	7,351
Miscellaneous	18
Total	<u>\$ 111,667</u>

Utilities paid to City:

Collections for water, sewer, and garbage	\$ 997,113
Donations in lieu of taxes	73,772
Bond principal and interest	54,325
Cable franchise fee	15,805
Miscellaneous	11,200
Total	<u>\$1,152,215</u>

(11) Floyd-Mitchell-Chickasaw Solid Waste Management Agency

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Osage may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2006, the City of Osage paid McNealy's Sanitation \$153,361. The sanitation company is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

(12) Economic Development

The City provided funds to Osage Manufacturing, Inc. (OMI), under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest, payable at \$556 per month. The balance owed to the City at June 30, 2006 by OMI was \$134,999. The City provided funds to A to Z Drying, Inc. under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest payable at \$1,401 per month. The balance owed to the City at June 30, 2006 by A to Z Drying, Inc. was \$124,974.

The City also provided funds to small businesses along Main Street during fiscal years 2003-2006, under provisions of Chapter 15A of the Code of Iowa in the form of twelve loans with no interest. The balance of the loans at June 30, 2006 is \$108,300, and payments are to be made on January 10<sup>th</sup> for the first four years in the amount of one tenth of the original issue. A balloon payment for the remaining balance is due on January 1<sup>st</sup> of the fifth year.

In addition, the City has also provided funds to a small business outside the Tax Increment Financing District under provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest. The balance of this loan at June 30, 2006 was \$33,500 and payments are handled in the same manner as the Main Street Loans mentioned in the preceding paragraph.

(13) Retiree Insurance

City employees who retire before the age of 65 continue to be eligible to participate in the City's health insurance plan. However, these retirees are required to reimburse the City 100% of the premiums.

One manager took early retirement and the City agreed to pay for health insurance to age 65½, which was October 2005. The net cost to the City was \$1,334 for the year ended June 30, 2006. The monthly payments went through November 2005.

(14) Housing Revenue Bonds

The City has previously issued \$1,600,000 of housing revenue bonds under the provisions of Chapter 419 of the Code of Iowa of which \$1,252,904 is outstanding at June 30, 2006. The bonds and related interest are payable solely from the rents payable by tenants of the property constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds were issued for the benefit of Martin Luther Homes, Inc., Evergreen Senior Housing.

(15) Leases

The City leases property to others under a three year operating lease requiring fixed monthly payments of \$400 beginning July 1, 2000. The lease is renewable for up to 6

three-year contracts. At June 30, 2006, the lease had been automatically renewed for another 3 years at the rate of \$461 per month.

Year ending June 30, 2006:

2007	\$ 5,532
2008	5,532
2009	<u>5,532</u>
Total	<u>\$16,596</u>

The Osage Public Library leases approximately 1,000 square feet of space to North Iowa Area Community College (NIACC) under a two-year renewable lease. The City of Osage will receive a payment of \$4,000 in 2007.

The City leases tower space to U.S. Cellular and Osage Municipal Utilities under five-year renewable leases. The City receives lease payments of \$1,200 annually from U.S. Cellular and Osage Municipal Utilities. Also, the City entered into a lease of property from Mayer's Digging Company. The City pays \$1 per year for the property until March 31, 2007.

(16) Construction Commitments

As of June 30, 2006, the City had the following commitments with respect to the following projects:

	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Cemetery mowing contract	\$ 20,625	December 31, 2006
2006 Paving project	143,153	September 18, 2006

(17) USDA Loan Guarantee

On June 9, 2000, the Osage Community Daycare received \$200,000 in note proceeds under United States Department of Agriculture (USDA) Notes. The proceeds were received from two separate \$100,000 notes. The notes are not a general obligation of the City but are payable solely and only from pledges of private funds to be donated to the Osage Community Daycare. The notes bear interest at 5.00% and 4.75% per year, respectively. Interest and principal is paid monthly beginning on July 9, 2002 and each month thereafter until maturity. Monthly interest and principal payments of \$491 and \$475, respectively, are due until maturity on May 9, 2040. The City has guaranteed to pay from its General Fund, up to \$200,000 of the principal amount if revenues from the Osage Community Daycare are not sufficient to make such payment. The Osage Community Daycare has paid the June 9, 2006 principal and interest payment.

(18) Subsequent Events

The City of Osage and Osage Municipal Utilities each made a \$2 million commitment toward the construction of facilities to accommodate, a wellness center, museum, performance auditorium, convention & exhibition space, weight room and bus garage. The document creating the Cedar River Recreation and Fine Arts Complex Board was signed by all parties on September 11, 2006.

City of Osage  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 948,134		\$ -
Tax increment financing collections	433,742	-	-
Other city tax	245,649	-	-
Licenses and permits	6,245	18,225	-
Use of money and property	111,444	44,057	3
Intergovernmental	432,009		-
Charges for service	62,099	1,013,350	-
Special assessments	60,104	-	-
Miscellaneous	182,660	479	2,895
Total receipts	<u>\$ 2,482,086</u>	<u>\$ 1,076,111</u>	<u>\$ 2,898</u>
Disbursements:			
Public safety	\$ 451,189	\$ -	\$ -
Public works	351,946	-	-
Culture and recreation	413,221	-	-
Community and economic development	125,515	-	-
General government	257,076	-	-
Debt service	431,218	-	-
Capital projects	580,557	-	-
Business type activities	-	1,130,307	-
Total disbursements	<u>\$ 2,610,722</u>	<u>\$ 1,130,307</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (128,636)	\$ (54,196)	\$ 2,898
Other financing sources (uses), net	<u>19,000</u>	<u>(19,000)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ (109,636)	\$ (73,196)	\$ 2,898
Balances beginning of year	<u>2,595,978</u>	<u>1,355,334</u>	<u>85,794</u>
Balances end of year	<u><u>\$ 2,486,342</u></u>	<u><u>\$ 1,282,138</u></u>	<u><u>\$ 88,692</u></u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 948,134	\$ 945,853	\$ 945,853	\$ 2,281
433,742	331,700	433,700	42
245,649	223,500	245,704	(55)
24,470	6,130	6,130	18,340
155,498	64,040	137,140	18,358
432,009	402,775	438,255	(6,246)
1,075,449	1,074,557	1,074,557	892
60,104	40,115	60,115	(11)
180,244	136,415	176,965	3,279
<u>\$ 3,555,299</u>	<u>\$ 3,225,085</u>	<u>\$ 3,518,419</u>	<u>\$ 36,880</u>
\$ 451,189	\$ 482,102	\$ 483,102	\$ 31,913
351,946	446,843	431,843	79,897
413,221	452,343	455,943	42,722
125,515	100,200	147,200	21,685
257,076	214,795	282,265	25,189
431,218	431,410	431,410	192
580,557	150,000	760,810	180,253
1,130,307	1,648,064	1,294,564	164,257
<u>\$ 3,741,029</u>	<u>\$ 3,925,757</u>	<u>\$ 4,287,137</u>	<u>\$ 546,108</u>
\$ (185,730)	\$ (700,672)	\$ (768,718)	\$ 582,988
<u>-</u>	<u>473,479</u>	<u>473,479</u>	<u>(473,479)</u>
\$ (185,730)	\$ (227,193)	\$ (295,239)	\$ 109,509
<u>3,865,518</u>	<u>3,559,632</u>	<u>3,865,521</u>	<u>(3)</u>
<u>\$ 3,679,788</u>	<u>\$ 3,332,439</u>	<u>\$ 3,570,282</u>	<u>\$ 109,506</u>

City of Osage

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$361,380 and budgeted receipts by \$293,334. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

City of Osage  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

	Local Option Sales Tax	Forfeited Property	Employee Benefits	Emergency Levy	Special Jaws of Life
Receipts:					
Property tax	\$ -	\$ -	\$ 183,162	\$ 16,201	\$ -
Other city tax	218,004	-	432	38	-
Use of money and property	6,227	330	-	-	225
Intergovernmental	-	-	-	-	-
Charges for service	-	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	-	1,050	-	-	400
Total receipts	<u>\$ 224,231</u>	<u>\$ 1,380</u>	<u>\$ 183,594</u>	<u>\$ 16,239</u>	<u>\$ 625</u>
Disbursements:					
Operating:					
Public safety	\$ -	\$ 1,532	\$ -	\$ -	\$ -
Community and economic development	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>\$ -</u>	<u>\$ 1,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 224,231</u>	<u>\$ (152)</u>	<u>\$ 183,594</u>	<u>\$ 16,239</u>	<u>\$ 625</u>
Other financing sources (uses):					
Operating transfers in	\$ -	\$ -	\$ -	\$ -	\$ 200
Operating transfers out	(288,590)	-	(183,594)	(16,239)	-
Total other financing sources (uses)	<u>\$ (288,590)</u>	<u>\$ -</u>	<u>\$ (183,594)</u>	<u>\$ (16,239)</u>	<u>\$ 200</u>
Net change in cash balances	\$ (64,359)	\$ (152)	\$ -	\$ -	\$ 825
Cash balances beginning of year	<u>241,888</u>	<u>8,842</u>	<u>-</u>	<u>-</u>	<u>7,755</u>
Cash balances end of year	<u>\$ 177,529</u>	<u>\$ 8,690</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,580</u>
Cash Basis Fund Balances					
Restricted	\$ -	\$ 8,690	\$ -	\$ -	\$ -
Unreserved:					
Special revenue funds	177,529	-	-	-	8,580
Capital project fund	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total cash basis fund balances	<u>\$ 177,529</u>	<u>\$ 8,690</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,580</u>

See accompanying independent auditors' report.

## Schedule 1

Revenue					Capital Projects	Permanent		
Parks and Recreation	Commercial Loan	Library Building Equipment Materials	Capital Improvement Revolving	DARE	Airport and Street Related	Cemetery Perpetual Care	Ingeborg Hallingby Memorial	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 199,363
-	-	-	-	-	-	-	-	218,474
1,327	3,053	6,736	8,834	187	11,852	-	3	38,774
-	-	-	-	-	24,307	-	-	24,307
10,682	-	-	-	-	-	-	-	10,682
-	-	-	-	-	42,272	-	-	42,272
9,745	2,000	15,500	-	1,525	-	2,895	-	33,115
<u>\$ 21,754</u>	<u>\$ 5,053</u>	<u>\$ 22,236</u>	<u>\$ 8,834</u>	<u>\$ 1,712</u>	<u>\$ 78,431</u>	<u>\$ 2,895</u>	<u>\$ 3</u>	<u>\$ 566,987</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,458	\$ -	\$ -	\$ -	\$ 3,990
-	26,500	-	-	-	-	-	-	26,500
-	-	-	-	-	81,148	-	-	81,148
<u>\$ -</u>	<u>\$ 26,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,458</u>	<u>\$ 81,148</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,638</u>
<u>\$ 21,754</u>	<u>\$ (21,447)</u>	<u>\$ 22,236</u>	<u>\$ 8,834</u>	<u>\$ (746)</u>	<u>\$ (2,717)</u>	<u>\$ 2,895</u>	<u>\$ 3</u>	<u>\$ 455,349</u>
\$ -	\$ 51,963	\$ 4,184	\$ 4,000	\$ -	\$ 272,836	\$ -	\$ -	\$ 333,183
(20,393)	-	-	-	-	(270,500)	-	(3)	(779,319)
<u>\$ (20,393)</u>	<u>\$ 51,963</u>	<u>\$ 4,184</u>	<u>\$ 4,000</u>	<u>\$ -</u>	<u>\$ 2,336</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ (446,136)</u>
\$ 1,361	\$ 30,516	\$ 26,420	\$ 12,834	\$ (746)	\$ (381)	\$ 2,895	\$ -	\$ 9,213
35,003	73,342	73,057	313,530	5,953	91,271	85,489	300	936,430
<u>\$ 36,364</u>	<u>\$ 103,858</u>	<u>\$ 99,477</u>	<u>\$ 326,364</u>	<u>\$ 5,207</u>	<u>\$ 90,890</u>	<u>\$ 88,384</u>	<u>\$ 300</u>	<u>\$ 945,643</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,690
36,364	103,858	99,477	326,364	5,207	-	-	-	757,379
-	-	-	-	-	90,890	-	-	90,890
-	-	-	-	-	-	88,384	300	88,684
<u>\$ 36,364</u>	<u>\$ 103,858</u>	<u>\$ 99,477</u>	<u>\$ 326,364</u>	<u>\$ 5,207</u>	<u>\$ 90,890</u>	<u>\$ 88,384</u>	<u>\$ 300</u>	<u>\$ 945,643</u>



City of Osage  
Schedule of Indebtedness  
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
1999 Street Improvement	06/01/99	3.70-4.45%	\$ 605,000
2002 Street Improvement and Telecom	07/01/02	2.35-4.40%	630,000
Total			
General obligation notes:			
2003 Refunding Capital	11/05/03	1.50%	\$ 845,000
2003 G.O. Capital Loan	12/09/03	3.95%	140,000
Osage Manufacturing	12/01/96	6.625-7.10%	475,000
Total			
Revenue bond:			
1999 Waste Water Treatment	06/01/99	3.70-4.70%	\$ 2,480,000

See accompanying independent auditors' report.

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 120,000	\$ -	\$ 30,000	\$ 90,000	\$ 5,160	\$ -
<u>550,000</u>	<u>-</u>	<u>60,000</u>	<u>490,000</u>	<u>21,468</u>	<u>-</u>
<u>\$ 670,000</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>\$ 580,000</u>	<u>\$ 26,628</u>	<u>\$ -</u>
\$ 435,000	\$ -	\$ 215,000	\$ 220,000	\$ 9,035	\$ -
110,000	-	20,000	90,000	4,148	-
<u>220,000</u>	<u>-</u>	<u>50,000</u>	<u>170,000</u>	<u>15,440</u>	<u>-</u>
<u>\$ 765,000</u>	<u>\$ -</u>	<u>\$ 285,000</u>	<u>\$ 480,000</u>	<u>\$ 28,623</u>	<u>\$ -</u>
<u>\$ 1,710,000</u>	<u>\$ -</u>	<u>\$ 160,000</u>	<u>\$ 1,550,000</u>	<u>\$ 76,325</u>	<u>\$ -</u>

City of Osage  
Bond and Note Maturities

June 30, 2006

Year Ending June 30,	General Obligation Bonds				
	1999 Street Improvement		2002 Street Improvement and Telecom		Total
	Issued June 1, 1999		Issued July 1, 2002		
	Interest Rates	Amount	Interest Rates	Amount	
2007	4.25%	\$ 30,000	3.40%	\$ 65,000	\$ 95,000
2008	4.35%	30,000	3.65%	65,000	95,000
2009	4.45%	30,000	3.85%	70,000	100,000
2010		-	4.05%	70,000	70,000
2011		-	4.20%	80,000	80,000
2012		-	4.30%	85,000	85,000
2013		-	4.40%	55,000	55,000
Total		\$ 90,000		\$ 490,000	\$ 580,000

Year Ending June 30,	General Obligation Notes						
	2003 Refunding Capital		2003 G.O. Capital Loan		Osage Manufacturing		Total
	Issued Nov 5, 2003		Issued Dec 9, 2003		Issued Dec 1, 1996		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	1.50%	\$ 220,000	3.95%	\$ 20,000	7.000%	\$ 50,000	\$ 290,000
2008		-	3.95%	20,000	7.050%	60,000	80,000
2009		-	3.95%	20,000	7.100%	60,000	80,000
2010		-	3.95%	20,000		-	20,000
2011		-	3.95%	10,000		-	10,000
Total		\$ 220,000		\$ 90,000		\$ 170,000	\$ 480,000

Year Ending June 30,	Revenue Bond	
	1999 Waste Water Treatment	
	Issued June 1, 1999	
	Interest Rates	Amount
2007	4.25%	\$ 165,000
2008	4.30%	170,000
2009	4.35%	180,000
2010	4.40%	190,000
2011	4.50%	195,000
2012	4.60%	205,000
2013	4.65%	215,000
2014	4.70%	230,000
Total		<u>\$ 1,550,000</u>

See accompanying independent auditors' report.

## City of Osage

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Three Fiscal Years

	2006	2005	2004
Receipts:			
Property tax	\$ 948,134	\$ 924,410	\$ 929,385
Tax increment financing collections	433,742	400,831	372,459
Other city tax	245,649	222,034	235,857
Licenses and permits	6,245	7,033	7,100
Use of money and property	111,443	61,027	37,216
Intergovernmental	432,009	645,194	450,225
Charges for service	62,099	50,849	61,464
Special assessments	60,104	198,032	95,373
Miscellaneous	182,660	191,797	203,630
Total	<u>\$ 2,482,085</u>	<u>\$ 2,701,207</u>	<u>\$ 2,392,709</u>
Disbursements:			
Operating:			
Public safety	\$ 451,189	\$ 414,667	\$ 422,064
Public works	351,946	356,906	458,405
Culture and recreation	413,221	413,562	380,765
Community and economic development	125,515	100,988	452,292
General government	257,076	209,121	190,628
Debt service	431,218	462,534	1,447,522
Capital projects	580,557	193,032	404,607
Total	<u>\$ 2,610,722</u>	<u>\$ 2,150,810</u>	<u>\$ 3,756,283</u>

See accompanying independent auditors' report.

# **L** **INES MURPHY & COMPANY, P.L.C.**

**M** Certified Public Accountants  
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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's primary government financial statements listed in the table of contents and have issued our report thereon dated November 13, 2006. Our report expressed an unqualified opinion on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Osage's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Osage's ability to record, process, summarize and report financial data consistent with the assertions of management in the primary government financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Osage's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of primary government financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Osage and other parties to whom the City of Osage may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Osage during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Lines Murphy & Company, P. L. C.  
Certified Public Accountants  
Osage, Iowa  
November 13, 2006

City of Osage

Schedule of Findings

Year ended June 30, 2006

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the primary government financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the primary government financial statements.

City of Osage

Schedule of Findings

Year ended June 30, 2006

Part II: Findings Related to the Primary Government Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06    Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.



City of Osage

Schedule of Findings

Year ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- III-B-06 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- III-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-06 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Steven Cooper, Mayor, owner of Cooper Chrysler	Auto Repairs	\$ 1,385
Brian Adams, Council Member, Brother is owner of Adams Plumbing and Heating.	Heater at city shop, air conditioner at City Hall, small items	5,690
Cathy Penney, City Clerk, wife of Mark Penney, contractor.	Lawn work	99
Cathy Penney, City Clerk, mother of Scott Penney, contractor.	Lawn work	314
Don Breon, Council Member.	Performed CPR training course for the Police Department	339
John Michels, Park Commissioner.	Umpired Little League games	48
Joel Voaklander, Council Member, owner of Joel Voaklander Construction	Concrete and labor for repairs at sewer plant	2,904

In accordance with Chapter 362.5(10) of the Code of Iowa, the second and last amounts appear to represent a conflict of interest. The amounts are over \$1,500 each and bids were not taken. The rest of the transactions do not appear to represent a conflict of interest since the amounts were less than \$1,500.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will contact legal counsel.

Conclusion – Response accepted.

City of Osage

Schedule of Findings

Year ended June 30, 2006

- III-E-06     Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-06     Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-06     Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted.
- III-H-06     Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.
- III-I-06     Financial Condition – The Capital Projects Funds, East Main Development Project Account and 2006 Street Project Account had deficit balances at June 30, 2006 of \$162,561, \$55,613, and \$258,910, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The City will investigate alternatives.

Conclusion – Response accepted.

City of Osage

## Required Supplementary Information

## Other Supplementary Information

## Primary Government Basic Financial Statements